Achieving Fiscal Sustainability: The Case of El Salvador

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Fiscal Sustainability – The Facts in the Salvadorian Case

- Increased net tax revenue collection
- Increased public expenditure
- Structural fiscal deficit
- Sustained growing debt
Fiscal Sustainability – The Facts in the Salvadorian Case

Net Tax Revenue in Millions of US$ and Percentage of GDP
Fiscal Sustainability – The Facts in the Salvadorian Case

Public Expenditure in Millions of US$ and Percentage of GDP
Fiscal Sustainability – The Facts in the Salvadorian Case

Fiscal Deficit in Million of US$ and Percentage of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiscal Balance w/o pension (%GDP)</th>
<th>Fiscal Balance w/ pensions (%GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>-1.2%</td>
<td>-3.5%</td>
</tr>
<tr>
<td>2006</td>
<td>-1.2%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>2007</td>
<td>-1.3%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>2008</td>
<td>-1.3%</td>
<td>-2.5%</td>
</tr>
<tr>
<td>2009</td>
<td>-1.3%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>2010</td>
<td>-1.3%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>2011</td>
<td>-1.9%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>2012</td>
<td>-2.0%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>2013</td>
<td>-2.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2014</td>
<td>-2.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2015</td>
<td>-2.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2016</td>
<td>-2.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2017</td>
<td>-1.9%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Fiscal Balance w/o pension (%GDP) and Fiscal Balance w/ pensions (%GDP) from 2005 to 2017.
Fiscal Sustainability – The Facts in the Salvadorian Case

Public Debt in Million of US$ and Percentage of GDP
The Challenges of Supporting PFM Reforms

- Fiscal Sustainability (The ultimate target)
  
  i. The Constitution mandate is to guarantee fiscal balance
  
  ii. The political rules against fiscal rationality
  
  iii. Revenues increase trigger a higher public expenditure
  
  iv. Permanent focus on revenues and not on expenditures
  
  v. Technical assistance should focus on both side of the equation
The Challenges of Supporting PFM Reforms

• The Mirror Effect

  i. Low capacity of governments to follow international benchmarks

  ii. An isolated vision of the PFM world

  iii. Reluctance to accept foreign models and solutions

  iv. The political agenda Vs the technical imperatives
The Challenges of Supporting PFM Reforms

• Antagonism is the rule on fiscal reforms
  
  i. Political agendas are always first
  
  ii. PFM reforms are critical in the political game
  
  iii. How to address the conflict from the technical shore
Budget Reforms

- Materialization of public policy: the challenge
- Result Oriented Budget
- The virtuous circle of ROB
- Improving transparency and accountability
Public Accounting Reforms

• Adoption of IPSAS

• Increase transparency of public entities assets, liabilities, revenues and expenditures.

• Better financial information leading to proper policy making
Public Treasury Reforms

• Treasury Single Account.

• Budget commitment installment.

• Improve management and monitoring of contracts with banks

• Implementing proper financial management
Public Procurement Reforms

• E-procurement

• Implement more efficient public procurement methods – Reverse auction and framework agreements

• Integral vision of the public procurement process

• Public Procurement Ombudsman
Public Investment Reforms

• Investment projects oriented to results and application of the public value chain

• Greater monitoring and evaluation of investment projects

• Greater transparency in the execution of investment projects

• Improve efficiency in the use of investment resources
Link Between Centralized and Decentralized PFM Reforms

• Subnational governments autonomy; the challenge of poor fiscal performance

• Closing the gap between national and subnational government fiscal systems

• Improving national governments capacity to rule the subnational fiscal environment.
Achievements in PFM in El Salvador

• El Salvador is reforming its budget, implementing ROB and medium term fiscal and expenditure frameworks.

• El Salvador is adopting the IPSAS

• El Salvador is developing a new IFMS

• El Salvador created a public procurement ombudsman office

• El Salvador is expanding e-procurement across all public institutions
Improving Revenue Mobilization

• A progressive and fair legal tax system is always the first step

  • Loopholes must be solved
  • Facilitations of fiscal compliance
  • Strong statutory power

• Building technical capacity within the tax and customs administration

• Sound information systems
A “Whole in Revenue” System

Roadmap – CSMS II
Achievements in Domestic Revenue Mobilization in El Salvador

• El Salvador has increased net tax revenue collection by more than 4% of GDP in the last 15 years.

• El Salvador changed its tax structure, making tax collections more progressive.

• Tax evasion crackdown program to reduce tax evasion and avoidance (Approx. 229 million $US or 0.96% of 2016 GDP).

• El Salvador facilitated tax payment for its citizen thought the implementation of an e-filing system and a large taxpayer office.
Achievements in Domestic Revenue Mobilization in El Salvador

• GOES now has more accurate taxpayers records and information.

• Creation of Fiscal Compliance and Collections call centers has reduced the administrative cost of tax collections for the MOF.

• Creation and implementation of a “whole in revenue” system
Achievements in Domestic Revenue Mobilization in El Salvador

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>EL SALVADOR 2004</th>
<th>EL SALVADOR 2016</th>
<th>INTERNATIONAL BENCHMARK 2016</th>
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<tbody>
<tr>
<td>Net Tax Revenues as percentage of GDP</td>
<td>13.3%</td>
<td>17.4%</td>
<td>18.0%</td>
</tr>
<tr>
<td>VAT collection as percentage of total tax revenues</td>
<td>53.3%</td>
<td>43.7%</td>
<td>40.0%</td>
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<tr>
<td>Income Tax collection as percentage of total tax revenues</td>
<td>29.3%</td>
<td>39.9%</td>
<td>45.0%</td>
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<tr>
<td>VAT Evasion</td>
<td>42.29%</td>
<td>40.36%</td>
<td>10.0%</td>
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<tr>
<td>Use of data mining for tax control</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>E-filing system in place</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Integrated tax control system in place</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
</tbody>
</table>
Monitoring, Evaluation and Learning: A Key to Guarantee Success

• MEL is a process that must be used to influence decision making and resource allocation.

• PFM and DRM Projects needs to be dynamic and flexible. They must adapt to constantly political and economic changes.

• Projects should develop mitigation plans, in coordination with counterparts, to deal with these political and economic changes before they happen.

• To be successful, MEL process needs to be supported by the management team and Chief of Parties.